



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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MAR 16 1978



The Honorable Alan Cranston  
United States Senate  
and  
The Honorable George E. Brown, Jr.  
House of Representatives

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Dear Senator Cranston and Mr. Brown:

Your joint letter of August 4, 1975, requested us to review certain activities of the Redevelopment Agency of the City of San Bernardino, California. As subsequently agreed on September 17, 1975, our review was directed principally to the expenditure of Federal funds under the Department of Housing and Urban Development's (HUD's) Urban Renewal Program. We developed information *was compiled upon the following:*

- 1--redevelopment activities of the agency, including its authority, Federal assistance for projects, and the sources of funding;
- 2--the ability of the agency to repay all Federal or federally guaranteed loans outstanding when due;
- 3--the agency's refinancing of its debts and the propriety of the involvement of the agency's former chairman, Mr. Warner W. Hodgdon, in this refinancing;
- 4--whether the activities of Mr. Hodgdon or other agency officials with regard to the acquisition of land were in violation of conflict-of-interest provisions in the contract between HUD and the agency;
- 5--the amount and sources of funds the agency spent for publications publicizing its redevelopment activities; and
- 6--the results of audits of the Central City Project No. 1 by HUD, our Office, and independent auditors.

We made our review and related inquiries at HUD headquarters, Washington, D.C.; the HUD regional office in San Francisco, California; the HUD area office in Los Angeles,

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California; and the Redevelopment Agency and the city government in San Bernardino, California.

On December 17, 1975, we provided you with an oral briefing of the results of our review. As requested, we are providing the following synopsis of the information presented at that briefing.

REDEVELOPMENT ACTIVITIES IN  
THE CITY OF SAN BERNARDINO

The Redevelopment Agency of the City of San Bernardino was created pursuant to the Community Redevelopment Law of the state of California Health and Safety Code. Appropriate resolutions of the San Bernardino City Council activated the agency in 1952. The agency is an autonomous organization whose board of directors is appointed by the city council. Through its board of directors, the agency may exercise broad governmental functions and authority to accomplish its purposes, including the power of eminent domain; the power to issue bonds and expend their proceeds; and the power to acquire, sell, develop, administer, or lease property. The agency may demolish buildings, clear land, and cause to be constructed certain improvements, including streets, sidewalks, and public utilities. The agency, however, may not construct buildings, with the exception of public facilities, but must sell or lease cleared property to redevelopers for construction and development.

The agency was initially charged with the authority and responsibility for redeveloping and upgrading the central core of San Bernardino. The agency has subsequently become involved in planning and implementing redevelopment projects throughout San Bernardino.

In December 1974 the agency issued an overall Central City development plan. The plan, entitled "Plan of Development-Interim Report, San Bernardino Overall Central City Area," was formally adopted by the mayor and the city council of San Bernardino on March 17, 1975.

As set forth in the interim report, the overall Central City consists of six project areas: Meadowbrook, Central City Project No. 1, Central City North, Central City East, Central City South, and Central City West. Also discussed in the interim report were two related urban development project areas: San Bernardino State College Project No. 4 and the Southeast Industrial Park Center. The agency reported that the Meadowbrook and Central City No. 1 projects were substantially complete, while work on the State College and Central City North projects are still

underway. Redevelopment plans for Central City East, Central City South, and Southeast Industrial Park projects have been formulated and are pending adoption by the city. Redevelopment plans for Central City West are only in the preliminary stages, and a redevelopment plan has not yet been formulated.

Federal financial assistance

The agency received Federal financial assistance for the Meadowbrook, Central City No. 1, and State College projects from HUD under the authority of title I of the Housing Act of 1949, the enabling legislation for HUD's Urban Renewal Program. The Central City No. 1 project is the only redevelopment activity in San Bernardino currently receiving Federal financial assistance and is expected to be completed by June 30, 1976.

Central City Project No. 1 is composed of 94 acres covering the area of the old central business district. All redevelopment within the project was for commercial and public purposes, such as a shopping center and mall, a city hall and other municipal buildings, and office buildings. The redevelopment plan for the project was approved in 1965. The Federal loan and grant contract of \$12,492,000 for the project was awarded in 1967. The contract was increased through a series of amendments to \$26,909,000. The agency began acquiring land in 1967 and had purchased all parcels within the project area by December 1972. By December 1973 all site clearance and 75 percent of the new construction within the project area had been completed. As of October 1975, all but five parcels within the project area had been resold and all new construction on resold land had been essentially completed.

Final settlement of Federal financial support for the Meadowbrook and State College projects was completed in May 1972 and September 1973, respectively. The agency has not formally requested Federal financial assistance for any of the other planned redevelopment projects.

The cost of the Central City No. 1, Meadowbrook, and State College projects and the source of funds for payment of those costs are shown below.

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<u>Project area</u>	<u>Project costs</u>	<u>Source of funds for Federal urban renewal projects</u>			
		<u>Federal funds</u>	<u>Local cash</u>	<u>Grants-in-aid</u> (note a)	<u>Land sales</u>
(----- 000 omitted -----)					
Central City Project No. 1	\$45,896	\$26,909	\$ 221	\$11,036	\$7,730
Meadowbrook	6,846	2,116	1,205	1,019	2,506
State College	1,032	764	-	249	19

<sup>a</sup>Local noncash grants-in-aid include donated land and public facilities or other improvements financed solely from city and agency funds that were accepted by HUD as a substitute for the agency's cash grant-in-aid requirement.

AGENCY'S ABILITY TO REPAY ITS  
FEDERALLY GUARANTEED LOANS

The agency borrows funds on the open market by issuing short-term notes called Project Notes, which are guaranteed by the Federal Government.

Proceeds from these federally guaranteed notes are used by the agency for payment of project expenditures, such as land acquisition, site improvements, and administrative costs. As of September 30, 1975, the total amount of the project notes that mature as of July 23, 1976, was \$2,722,002, consisting of \$2,635,000 principal and \$87,002 interest. As of September 30, 1975, the total funds available to retire the project notes were made up of:

Undistributed grant funds	\$2,818,752
Project temporary loan repayment fund balance	2,612
Investments	<u>159,994</u>
<b>Total available for repayment</b>	<b><u><u>\$2,981,358</u></u></b>

As indicated above, sufficient undistributed Federal grant funds remain to repay the principal and interest on the short-term notes maturing in July 1976. In addition, it should be noted that HUD has another resource to assist in the repayment of these outstanding short-term notes. Section 112(a) of the Housing and Community Development Act of 1974 provides that the Secretary of HUD is authorized to

apply up to 20 percent of a community's entitlement of block grant funds to the repayment of outstanding loans made in connection with urban renewal projects.

AGENCY'S REFINANCING OF ITS DEBTS AND  
PROPRIETY OF AGENCY OFFICIALS' INVOLVEMENT

The agency also borrows funds through the issuance of long-term bonds secured by the agency. The Federal Government was not involved in the issuance of, nor does it guarantee the agency's bonds, nor is it involved in the administration of the bond proceeds.

According to the agreement between the Federal Government and the agency, the agency will provide one-fourth of net project costs, either as cash or noncash grants-in-aid. Currently, the agency has provided about \$221,000 cash grants-in-aid and about \$11 million in noncash grants-in-aid. The noncash grants-in-aid were financed by the agency almost totally through the issuance of long-term bonds, referred to as tax allocation bonds.

The agency has issued two series of tax allocation bonds<sup>1</sup> for financing the Central City Project No. 1. The principal amounts of the two series, issued in 1971 and 1973, were \$13,500,000 and \$14,800,000, respectively. Tax allocation bonds issued by the agency are obligations of that organization and are not debts of the Federal Government, the city, or any other public body.

Before it issued the first series of tax allocation bonds, the agency issued short-term promissory notes having an aggregate principal amount of \$10,500,000. There was no Federal involvement in this transaction. The notes were dated August 15, 1970, and were due August 15, 1971. The notes were issued for the purpose of providing interim financing for the agency's share of Central City No. 1 project costs. Interim financing was necessary because at that time the depressed bond market precluded the sale of tax allocation bonds.

Proceeds from the initial series of tax allocation bonds issued by the agency were used to retire the entire amount of the above-mentioned promissory notes. The bonds had an aggregate principal amount of \$13,500,000 and

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<sup>1</sup>Bond issues secured by a pledge of tax revenues created by increased assessed valuations as a result of redevelopment.

carried the maximum allowable annual interest rate of 7 percent. The bonds were dated February 15, 1971, and their maturity date was February 15, 1996.

In 1973 the agency took action to retire the 1971 tax allocation bonds by issuing a second series of tax allocation bonds at a lower rate of interest. In December 1973 the agency sold \$22.3 million worth of tax allocation bonds consisting of \$14.8 million of Central City bonds carrying a 6.5-percent interest rate and \$7.5 million of Meadowbrook project bonds carrying a 6.25-percent interest rate. The bonds were dated September 1, 1973, and will mature from September 1, 1981, through September 1, 2006. The proceeds from the Central City bonds were used to refinance the \$13.5 million worth of Central City bonds issued in February 1971.

#### Actions of agency officials

On the basis of our review of the agency's records relative to the above-discussed financing and refinancing of the agency's debts, we found no evidence of improper involvement by agency officials or by Mr. Hodgdon in these transactions.

#### ACQUISITION OF LAND

In accordance with your request, our review of the acquisition of land by the agency focused on whether the activities of Mr. Hodgdon or other agency officials were in violation of the conflict-of-interest provision in the grant contract between the agency and HUD.

The Central City Project No. 1 loan and capital grant contract between the agency and HUD, signed March 21, 1967, contains the following conflict-of-interest clause dealing with activities and interest of agency personnel.

"The Local Public Agency will adopt and enforce measures appropriate to assure that no member of its governing body and no other officer or employee of the Local Public Agency who exercises any functions or responsibilities in connection with the carrying out of the Project shall, prior to the completion of the Project, voluntarily acquire any personal interest, direct or indirect, in any property included in the Urban Renewal Area, or in any contract or proposed contract in connection with the undertaking of the Project. If any such member, officer, or employee presently owns or controls, or in the future involuntarily acquires, any such personal interest, he

shall immediately disclose such interest to the Local Public Agency. Upon such disclosure such member, officer, or employee shall not participate in any action by the Local Public Agency affecting the undertaking of the Project unless the Local Public Agency shall determine that, in the light of such personal interest, the participation of such member in any such action would not be contrary to the public interest. The Local Public Agency will promptly advise the Secretary of the facts and circumstances concerning any disclosure of interest made to it pursuant to this subsection."

In determining whether there were any violations of this contract provision in the acquisition of project land, we compared a list of the sellers of this land to a list of all top management officials who were employed by the agency during the period when the property was acquired. A total of 321 parcels were acquired by the agency.

On the basis of this comparison, we found no cases where agency officials had an interest in project land being acquired. However, the executive director of the agency told us of one case in which an agency board member, Mr. Sanford H. Wein, had an interest in property located within the Central City project area. Mr. Wein was a board member from January 12, 1967, through November 15, 1971. At the time of his appointment, Mr. Wein submitted a letter to the agency disclosing his interest in the project area, and subsequently the information was disclosed to HUD. On May 20, 1968, following correspondence between the agency and HUD, the agency adopted a resolution declaring that Mr. Wein's participation was not in violation of the loan and grant contract and was not contrary to public interest.

#### PUBLICATIONS

As you requested we examined into the costs of publications publicizing the activities of the agency and determined whether Federal funds were used to finance the cost of publications for local non-Federal projects.

#### Federally assisted projects

Promotional publications are eligible for Federal reimbursement of costs and were included in the agency's annual administrative budget for the Central City project. The publications consist of annual reports, developer brochures and packets, and other informational material. As shown in the annual administrative budgets, the agency

spent about \$47,000 for promotional-type publications during fiscal years 1967 through 1975. Additional publications financed with Federal funds have been prepared for the agency but were not identified in the administrative budget. These reports, however, were considered studies necessary for completing redevelopment activities and as such were not considered an administrative cost and were not for the express purpose of publicizing the project.

#### Local projects

Through examination of accounting records and discussions with agency officials, we determined that publications pertaining to local projects were financed with local funds. Federal funds were not used to publicize local projects. For example, publication costs of the "Plan of Development-Interim Report, San Bernardino Overall Central City Area," (discussed on p. 2), prepared by Gruen Associates under contract to the agency, totaled about \$242,000. The costs were traced to the local fund cost ledgers and were identified as being paid for with local funds.

#### AUDITS OF CENTRAL CITY PROJECT NO. 1

The Central City Project No. 1 has been subject to prior audits by HUD, our Office, and an independent accounting firm. The audits have questioned the eligibility of certain project expenditures, but they have not disclosed any other impropriety in program administration by agency officials.

#### HUD audits

The agency maintains a separate set of accounting records for administration of Federal funds for the Central City Project No. 1. HUD has made two audits of the books and records of the agency pertaining to the Central City Project No. 1 funds. The examinations included (1) a determination of the degree of compliance by the agency with the terms and conditions of the contract, pertinent HUD regulations, policies and procedures, and agency regulations and procedures, (2) an evaluation of internal controls, including a review of the accuracy and condition of the accounting records, and (3) a determination of the eligibility of project expenditures.

The first audit report dated February 25, 1972, covered the period August 1969 through October 1971. The acquisition cost for the city hall property was the principal expenditure questioned by this audit. The source of controversy on this issue was the difference between

the HUD approved price (\$331,125) for the property and the amount awarded by the court (\$525,000) through mandatory condemnation proceedings. The agency charged the total court-ordered price to project expenditures; however, HUD auditors did not believe the \$193,875 in excess of the HUD-approved price was an allowable project expense. After about 2 years, HUD finally accepted the court-ordered price as an allowable project cost in order to facilitate the closeout of the project.

The second audit report dated October 31, 1975, covered the period November 1971 through June 1975. The primary finding of this audit was that administrative costs were not being allocated between Federal and non-Federal activities. Therefore, the auditors questioned the entire \$1,044,228 charged to administrative costs during the period and recommended that the HUD Area Director in Los Angeles determine what portion of those costs were eligible for Federal reimbursement.

A HUD official in the Los Angeles area office said that the agency would be directed to prorate the \$1,044,228 in administrative costs to Federal and non-Federal projects on an equitable allocation basis. After an acceptable allocation has been made, the agency must reimburse HUD for those costs not eligible for Federal reimbursement. As of February 1976, an acceptable method for allocating the administrative costs had not been agreed to by the agency and HUD.

#### GAO reviews

Prior GAO reviews of the Central City Project No. 1 were conducted in response to congressional requests from former Congressman Jerry Pettis dated October 9, 1968, and March 20, 1969, and resulted in reports dated June 3, 1969, and December 31, 1969, respectively. Our first review was primarily directed toward ascertaining (1) whether disposition of land to the major developer of the project, the Central City Company, had been carried out according to HUD regulations and (2) whether Mr. Hodgdon was involved in dealings with Mr. John Curci as a principal in the Central City Company which constituted conflict of interest. Our second review dealt with whether acquisition prices had been established according to HUD regulations.

The findings of these reviews of the agency were as follows:

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1. The agency had substantially complied with HUD's land disposal requirements in the sale of land to the Central City Company.
2. Mr. Hodgdon had personal dealings with Mr. Jurci while Mr. Hodgdon was a member of the agency. However, HUD ruled that these dealings were not a conflict of interest on the part of Mr. Hodgdon.
3. The agency had established acquisition prices substantially in accordance with HUD regulations. But we believed there were instances in which the agency or HUD should have required an additional appraisal due to wide variances between appraised value in the two initial appraisals.

Independent audits

The agency maintains a separate set of accounting records for local funds derived primarily from the sale of tax allocation bonds. These records are audited annually by an independent public accounting firm.

We reviewed the last three annual examinations of financial statements for the Central City Project No. 1. These reports did not indicate any impropriety on the part of the agency in administering these local funds.

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As your office requested, we did not give HUD or agency officials an opportunity to formally review and comment on the matters discussed in this report. However, we have discussed these matters with officials of these organizations and have included their comments where appropriate.

Sincerely yours,  
*Louis B. Streats*

Comptroller General  
of the United States

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